

City of Alexandria, Virginia

MEMORANDUM

DATE: JULY 1, 2002

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: APPROVED FY 2003 OPERATING BUDGET AND APPROVED FY 2003-2008 CAPITAL IMPROVEMENT PROGRAM

I am pleased to present the City of Alexandria's Approved Fiscal Year 2003 Operating Budget and the FY 2003-FY 2008 Capital Improvement Program as adopted by City Council on May 6, 2002. The Approved All Funds Operating Budget of \$454.4 million reflects an increase of 5.7% over FY 2002, while the six-year Capital Improvement Budget of \$307.0 million represents a 3.4% increase from the FY 2002-FY 2007 CIP. The Approved General Fund budget for FY 2003 is \$373.2 million, 6.6% above the FY 2002 General Fund Budget. This is \$0.1 million less than the FY 2003 budget as originally proposed.

Conservative budgeting, the continued growth of the residential real estate market in Northern Virginia and careful decision-making by the Mayor and City Council allowed the reduction of the real estate tax rate by three cents from \$1.11 to \$1.08. This represents a real estate tax revenue reduction of \$2.4 million in FY 2002, and \$4.8 million in FY 2003. The City's ability to absorb this reduction reflects the very sound financial condition of the City, in spite of expected State aid reductions and the post-September 11th drop in tourism-related tax revenues. This tax rate reduction will not detract from our ability to continue to deliver quality services to our residents and businesses; nor will it prevent the City from fully funding the Alexandria City Public Schools' Operating Budget request.

However, the slow growth in the local economy, a cautious prediction of the economy's future, expected reductions in State aid, and this decrease in the real estate tax rate have led us to hold the expenditure side of the FY 2003 budget to minimal programmatic increases, with new funding initiatives being recommended and then approved in only a few important areas.

Major Factors Shaping the Approved FY 2003 Operating Budget

A number of important factors shaped the Approved FY 2003 Operating Budget. They are:

- Continuation of the City's commitment to the Alexandria City Public Schools (ACPS) by providing substantial financial support on both the operating and capital sides of the Schools' budget.
- A recognition of the City's workforce and their outstanding efforts, through the maintenance of our competitive pay and benefits structures.
- The safety and security of the public, as well as the City's workforce, made all the more compelling by the events of September 11.
- The need to keep the City's Capital Improvement Program on schedule to the maximum degree possible, to continue the maintenance and improvement of our infrastructure and public buildings, and to begin addressing future capital requirements.
- Implementation of the affordable housing initiatives outlined in the recent report of the Affordable Housing Task Force and adopted by the City Council.
- The need to begin addressing changes in the delivery of services to our growing and diversifying resident population, as identified in the 2000 Census.
- The recent substantial increase in residential real estate assessments coupled with slow growing commercial assessments.
- Anticipated reductions in operating aid from the State in the education, courts and human services areas, as well as in law enforcement aid.
- Continued compliance with the City's Financial Policy Guidelines, in order to protect our AAA/Aaa bond ratings.

Some of these factors are reflected on the revenue side of the proposed budget, others on the expenditure side.

FY 2003 Projected Revenues

FY 2003 General Fund revenues are projected at \$363.4 million, which represents a 4.8% increase from FY 2002. To provide sufficient resources to balance the FY 2003 budget, \$9.8 million in FY 2002 surplus revenues, underexpenditures, and capital savings are proposed to be utilized. As a result, a total of \$373.2 million is available to support the proposed City and Schools General Fund supported expenditures.

Real estate tax revenues are projected at \$176.6 million for FY 2003. This reflects both the approved 3-cent real estate tax rate decrease and the overall 11.2% increase in the 2002 real estate tax base. This tax base increase includes:

- (a) A 15.3% increase in the average assessment of existing residential homes, including a 14.8% increase in the average assessment of existing single family homes and a 17.2% increase in the average assessment of existing condominiums;
- (b) A 1.6% increase in the average assessment of existing non-residential commercial properties; and
- (c) An addition of \$315.3 million in new construction, 33% of which stems from new residential construction and 67% from new commercial (including apartment) construction.

While the 3-cent real estate tax rate reduction will provide some relief, taxes on the average residential home in the City will increase by 12.21 %, or \$292. Since our residential assessment increases are slightly less than in all other major Northern Virginia jurisdictions, this average \$292 increase is among the lowest real estate tax increases among these jurisdictions.

Non-real estate sources of local tax revenue are projected to grow slowly in FY 2003. Revenue from personal property taxes, which accounts for 14.3%, or \$53.2 million, of the total projected General Fund revenue, is estimated to increase by 7.1% in FY 2003. All other sources of local tax revenue, including local sales, transient lodging, restaurant meals, utility and business license taxes, are projected to increase by only 2.5% in FY 2003, to an estimated total of \$85.2 million, or 23.5% of the total projected revenue. This low growth is based in substantial part on the assumption that we will experience only a partial return to the level of tourism-related tax revenue originally planned in last year's budget for FY 2002.

The City is projecting a revenue loss in the aid we will receive in FY 2003 from the Commonwealth of Virginia. The State budget had been shattered by previous over-optimistic revenue forecasting and the increased costs of car tax relief. This, coupled with a downturn in the State's economy, has resulted in reduced State support to localities throughout the Commonwealth. We prepared for reductions in the courts, human services and other areas by setting aside a \$1.5 million contingent in the proposed budget. Of this contingent, \$0.7 million was needed and the remaining \$0.8 million was able to be released to help finance part of the real estate tax rate reduction.

To help alleviate part of the real estate tax burden, the approved operating budget projects new revenue from increases in fees associated with (a) the review of development applications, (b) the inspection of fire protection systems, (c) connections to sanitary sewers, (d) parking in City garages and lots, (e) the towing and impounding of vehicles, and (f) increases in court costs. These fee increases are based on the recognition that all of the City's fee structures need to recover a greater share of the costs of providing services, while remaining competitive when compared to surrounding jurisdictions. Most of these fees also had not been increased in a decade or more.

Following the events of September 11, the City implemented a budget contingency planning process to reduce expenditures from operating and capital budgets. The contingency plan reduced and/or deferred expenditures for FY 2002 by approximately \$5 million. These were timely savings because revenues attributable to the tourist industry (in particular, hotel real estate, transient lodging and meal taxes) are projected to fall short of budget expectations by about \$4 million in FY 2002. While these revenues have recently begun to recover, they are still problematic and are expected to recover very slowly in FY 2003. Savings realized from the contingency plans have been carried forward and have helped to support needed capital improvement projects in FY 2003.

FY 2003 Approved Expenditures

The approved FY 2003 General Fund budget of \$373.2 million, a 6.6 % increase over the FY 2002 budget, contains only a few major expenditure increases, primarily in salaries and benefits, debt service, cash capital contributions, and public safety initiatives.

Most of the City's departments and agencies have been held to less than a 2% budget increase over FY 2002, with the majority of that increase funding merit increases for employees. Notwithstanding this small increase, the approved budget funds all City programs and operations with no reduction in service levels.

Highlights of the budget's approved expenditures are as follows:

- Alexandria City Public Schools. The Operating Budget requested by the School Board is fully funded. The total, \$115.3 million, includes a 2.5% Cost of Living Adjustment (COLA) for School employees (\$2.6 million) and a longevity step added to each of the School's three pay plans (\$0.7 million). The total Schools budget represents a 7.5% increase over FY 2002. The Schools were able to hold to this level of spending due to lower student enrollment, and by limiting new initiatives in recognition of the City's revenue position.
- Cash Capital and Debt Service. The approved budget includes a \$14.2 million cash contribution to the CIP (up \$2.2 million from FY 2002) and \$17.7 million for capital-related debt service (up \$1.5 million from FY 2002). This funding helps to ensure that, despite the slowing economy and reduced revenue projections, our efforts to maintain and improve the City's basic infrastructure do not slide. We need to avoid short-term, expenditure-reducing actions in the CIP area that could have long-term negative consequences.
- Compensation and Benefits. The approved budget includes a 2.5% COLA, at a cost of \$3.8 million, for all City employees. A 2.5% COLA will maintain the position of our pay plan relative to other Northern Virginia local governments and other organizations with which we compete for employees. To cover the increase in the cost of employee and retiree health insurance, \$1.7 million has been included for health insurance premium increases. Also, an additional step has been added to the City pay scale, at a cost of \$400,000, in order to remain

competitive and to recognize the value of City career employees. Further, in order to make the City's pay practices more equitable, the manner in which we calculate overtime pay has been revised, at a net cost of \$215,000.

- State Budget Cuts. The approved budget includes \$732,000 in contingent reserves to help offset the expected reductions in State aid to the City government in the areas of courts and human services. (Another \$950,000 has also been placed in reserves for other contingencies.)
- Public Safety. The terrorist attacks on September 11, the subsequent incarceration of suspected terrorists and their upcoming federal trials in Alexandria, and, more generally, the City's growing resident and daytime worker population have prompted increased funding in the public safety area.

The approved Police Department budget provides \$584,000 for nine additional police officer positions. These officers will improve the department's capacity to respond to calls for service throughout the City. To address the post-September 11 need for improved security, the approved budget provides \$93,000 to fully fund the new (created after September 11) three-person Division of Security and Intelligence within the Police Department. This office, which was initiated almost immediately after September 11, works closely with federal intelligence and other local law enforcement officials on matters related to national, regional and local security.

The Office of Sheriff's budget funds nine new, temporary limited-term positions to improve the perimeter security at the Public Safety Center. The detention of high-profile prisoners at the detention center and their movement between the center and the federal courthouse makes improved security a necessary priority. These positions, which are temporary (for a to-be-determined time period), will provide security 24 hours a day, seven days a week at the Public Safety Center. The City continues to work to obtain federal assistance to offset the \$524,000 required for these positions and other operating expenses incurred by the City as a result of the housing and trials of federal prisoners.

After the Pentagon tragedy in September, we approved the purchase of completely new breathing apparatus equipment for the entire Fire Department. Both the Fire and Police Departments will also benefit from a recently approved \$8 million one-time federal appropriation that will provide additional and/or improved equipment and training for their personnel.

- Affordable Housing. The approved budget continues the Council's commitment to affordable housing. The approved CIP provides \$1.5 million in General Fund monies for the Samuel Madden Homes (Downtown) redevelopment project for off-site replacement units. The Office of Housing's budget provides \$300,000 which, when combined with Housing Trust Fund and federal HOME monies, creates a fund of over \$1 million to implement the affordable housing initiatives recommended by the City Council's Affordable Housing Task Force. This fund will be used to support the development of affordable sales and rental housing through such activities as the acquisition and rehabilitation of existing housing, land acquisition and housing construction, and pre-development activities such as feasibility and infrastructure studies.

- Council Priorities. During the FY 2003 budget deliberations, the Mayor and City Council were able to fund several new initiatives while reducing the real estate tax rate by three cents. The additions include vocational services for high school graduates with mental retardation or developmental disabilities (\$56,000), funding to the Health Department for the Arlandria Clinic (\$20,000), continuation of the free DASH About shuttle service (\$120,000), increased funding for the City's Arts Grant Program (\$35,000), funding to the Department of Human Services for child day care center rate and Fee System eligibility increases (\$80,000), increased funding to the Department of Recreation, Parks and Cultural Activities for an irrigation system for King Street Gardens (\$15,000) and for the initiation of a public arts program (\$25,000), and additional funding to the Campagna Kids School Age Child Care program (\$30,000). Funding for three possible additional programs was designated to come from Contingent Reserves: funding to help implement the new plan review process in Planning and Zoning (\$50,000), funding for closed captioning of City Council meetings (\$50,000), and funding for the expansion of the Senior Taxi Service to a ten-mile radius outside the City limits for medical appointments (\$33,000).

- Capital Improvement Program. An essential goal of this year's budget preparation process was to avoid any reduction in, or other compromises to, the funding of the City's Capital Improvement Program(CIP). Consequently, funding of the CIP continues with \$54.7 million programmed for FY 2003. The entire six-year CIP totals \$183.8 million in City funding. The CIP includes \$86.7 million (\$19.6 million in FY 2003) for the Schools, which fully funds the School Board's capital requests with one exception. That exception is for generic capital costs related to the construction of a new elementary school which, at this time, is uncertain due to unclear student enrollment projections. Highlights of the CIP for FY 2003 include:
 - \$12.8 million to fund the planned expansion and renovation of the George Washington Middle School.
 - \$6.8 million for various school expansion, renovation and improvement projects system-wide.

- \$6.8 million to continue to correct the infiltration and inflow conditions in the City’s sanitary sewer system, and to make other improvements to this system.
- \$1.5 million to provide General Fund assistance for the Samuel Madden Homes (Downtown) redevelopment project off-site unit development of the Alexandria Redevelopment and Housing Authority.
- \$2.0 million, primarily for land acquisition, as part of future redevelopment activities in Upper Potomac West, as outlined in the report of the Upper Potomac West Task Force.
- \$3.0 million to provide additional, necessary funds for the planned relocation of the Health Department.
- \$4.4 million in information technology investments.
- \$5.0 million -- \$1.0 million in local funding and \$4.0 million in State Urban Funds -- for the region’s Metrobus and Metrorail systems where required City capital contributions are expected to ramp up to much higher levels, as well as for the City’s DASH bus system.
- \$1.4 million for parks and recreation facilities throughout the City.
- \$0.2 million for the design and construction of a skate park.
- \$1.2 million for renovations to Duncan Library, moved from FY 2004 to FY 2002. This change in priorities was offset by the move of the Market Square renovation project (\$1.2 million) from FY 2002 to FY 2004. This change resulted in no additional net cost.
- Fund Balance. In order to balance the FY 2003 budget, \$9.8 million from FY 2002 additional revenues, underexpenditures and capital savings will be carried over and used in FY 2003. These amounts represent one-time resources that cannot be assured of being repeated at that level in FY 2004. However, the \$14.2 million in cash capital included in the FY 2003 Approved Budget more than offsets this \$9.8 million, and helps keep the City’s budget structurally sound.

- Financial Policies. The City has been served well by Council's adherence over the years to the City's Financial Policy Guidelines. This discipline has played a significant role in enabling the City to obtain and retain our AAA/Aaa bond ratings. It is essential that compliance with each of these Guidelines be continued, even in difficult economic times. The approved FY 2003 Operating Budget and the FY 2003-2008 CIP do this.

Future Budget Issues

While the FY 2003 Operating Budget addresses our most immediate needs, there are a number of critical issues that need to be addressed as we plan for FY 2004 and beyond.

- Education. The ACPS enrollment numbers have been down this year, and the Schools' recent enrollment increases may be tapering off, but funding pressures, particularly in the area of teacher compensation, may need to be considered in future fiscal years.
- State Aid Reductions. The Commonwealth's budget situation is not expected to improve over the next two years, if not longer, which means that local governments will be pushed to replace the voids left by the State and, in many cases, to carry out unfunded State mandates.
- Growing Capital Needs. Many capital needs are not reflected in the proposed CIP. For instance, substantial reconstruction of the Police Department portion of the Public Safety Center or provision of a replacement facility, the growth of Metrobus and Metrorail, major infiltration/inflow problems in the City sewer system, the expansion of the DASH system, and road construction will need to be implemented in future CIPs. The Schools' capital needs will also likely increase with the planning for the renovation or replacement of T.C. Williams High School. In addition, the expected curtailment of the Virginia Department of Transportation's six-year construction plan and the shortage of State transportation funds may well lead to demands for City funding of transportation projects. This increased demand, and the unfunded projects listed above that are not funded in the CIP, would be able to be funded if the City Council endorsed regional ½ cent sales tax transportation bond referendum is approved by voters this fall.
- Real Estate Revenue. The cyclical nature of the real estate market and continuation of a sluggish economy will have an impact of some unknown degree on City tax revenues beyond FY 2003. Real estate cycles are impossible to precisely predict, and we must be cautious as we begin to plan for the FY 2004 budget, so that budgets in FY 2004 and beyond can be built upon the solid foundation of a sound FY 2003 budget.
- Education Funding Solutions. Methods of funding major education capital and operating expenditures in the City and in the State will need to be continually

pursued. The alternative is either an unacceptable level of inadequate funding, or an unacceptable higher real estate tax burden for City property owners. The State must consider alternative funding options.

Budget Document Aids

To locate additional information and to obtain further details on both the Operating Budget and CIP, refer to the table of contents, summary information, charts and index in both the Operating Budget document and the CIP document. The full Approved Operating Budget and CIP are available online at the City's web site: www.ci.alexandria.va.us, along with a form for submitting budget comments or suggestions. The budget documents can also be obtained on CD-ROM from the City's Office of Management and Budget (703-838-4780).

Appreciation

I want to thank the staff from all of our departments and agencies who have devoted thousands of hours assisting in the preparation of the Operating and Capital Budgets for FY 2003. This was an especially difficult year given the strict budget guidelines made necessary by economic conditions. Each department and agency, without exception, worked exceedingly hard to bring their budgets within the guidelines. I also want to thank the new ACPS Superintendent, Rebecca Perry, and her staff for the help they have provided in the preparation of the Schools' Operating Budget and CIP.

Particular appreciation, however, goes to Assistant City Manager Mark Jinks, Gene Swearingen, our new Director of the Office of Management and Budget, and the truly outstanding staff of OMB for providing the underlying analysis for a host of budget-related issues, for preparing the budget documents themselves, and for conveying invaluable advice and guidance during the decision making which preceded the presentation of the approved Operating Budget and CIP. They are as talented and dedicated a group of individuals as can be found. The City is indeed fortunate to be the recipient of their efforts.

Final FY 2003 Add/Delete List

The final Add/Delete List is the summary of the adjustments made by City Council on May 6, 2002, to the Proposed Budget. The FY 2003 budget, as amended by the Council adjustments, is the Approved Budget for the fiscal year beginning July 1, 2002, through June 30, 2003.

A. General Fund operating expenditures as proposed by the City Manager \$373,311,244

Net additions (reductions) to the Proposed FY 2003 Budget

Additions and transfers to department and agency budgets:

- | | |
|--|--------------------------|
| 1. Approved a 2.5 percent cost of living adjustment (COLA) for all City employees. Monies (\$3.750 million) were included in the FY 2003 proposed budget. | No new net fiscal impact |
| 2. Approved merit in-step increases for all eligible City employees. Monies (\$1.8 million estimate) were included in the FY 2003 proposed budget. | No new net fiscal impact |
| 3. Approved an increase (\$1.650 million) in the employer share of health care benefits for active and retired City employees to offset part of the expected cost increases. Monies were included in the FY 2003 proposed budget. Due to favorable rate negotiations, this is \$350,000 less than included in the proposed budget. | No new net fiscal impact |
| 4. Approved the creation of a new step "O" at the end of the City's pay scales to remain competitive in the compensation arena. Monies (\$400,000) were included in the FY 2003 proposed budget. | No new net fiscal impact |
| 5. Approved a change in the manner in which overtime pay is calculated in order to make the City's pay practices more equitable. Monies (\$215,000) were included in the FY 2003 proposed budget. | No new net fiscal impact |
| 6. Utilize \$731,980 of the General Fund State Aid Loss Contingent to cover State aid losses of the City's Special Revenue Fund. Monies were included in the FY 2003 proposed budget. | No new net fiscal impact |
| 7. Approved a designation (\$50,000) within the Contingent Reserves account to help implement the new plan review process in Planning and Zoning. These funds will be held in contingent reserves pending further Council action. | No new net fiscal impact |
| 8. Approved a designation (\$50,000) within the Contingent Reserves account for funding for closed captioning City Council meetings. These funds will be held in contingent reserves pending further Council action. | No new net fiscal impact |
| 9. Approved a designation (\$33,125) within the Contingent Reserves account for funding for expansion of the Senior Taxi Service to a ten-mile radius outside the City limits for medical appointments. These funds will be held in contingent reserves pending further Council action. | No new net fiscal impact |
| 10. Approved additional funding to the School Operating Fund to add a longevity step to each of the School's three pay plans. The Schools reallocated \$280,000 to provide the balance of the funding needed. | \$397,000 |
| 11. Approved additional capital funding for the design and construction of a skate park. | \$200,000 |
| 12. Approved additional funding to continue the free DASH About shuttle service (times and hours of operation to be determined.) | \$120,000 |

Final FY 2003 Add/Delete List

13. Approve additional funding to the Department of Human Services for child day care center rate and Fee System eligibility increases.	\$80,000
14. Approved additional funding for vocational services for high school graduates with mental retardation or developmental disabilities.	\$56,000
15. Approved additional funding for the Arts Grants Program. This is the second of a three step process to increase funding.	\$35,000
16. Approved additional funding for a 2.5 percent cost of living adjustment (COLA) for Campagna Center's Campagna Kids School-Age child care program workers.	\$30,000
17. Approved additional funding to the Department of Recreation, Parks and Cultural Activities to initiate a public arts program.	\$25,000
18. Approved additional funding to the Health Department for the Alexandria Neighborhood Health Services, Inc. (ANHSl) Arlandria Clinic.	\$20,000
19. Approved additional funding to the Department of Recreation, Parks and Cultural Activities to provide an irrigation system for King Street Gardens.	\$15,000
20. Approved a deletion from the planned General Fund State Aid Loss Contingent. This decrease is attributable to less State aid reductions than expected. Of the \$1.5 million budgeted, \$731,980 was needed to replace State aid losses.	(\$768,020)
21. Approved a deletion from the City's Health Insurance contingent. Savings are attributable to favorable contract negotiations with City Health Insurance carriers.	(\$350,000)
Total net fiscal impact of additions, reductions, and transfers to department and agency budgets	<u>(\$140,020)</u>
General Fund operating expenditures as approved by City Council ¹	<u><u>\$373,171,224</u></u>

¹ Within the General Fund Contingent Reserves of \$950,000, the following designations were made by City Council:

- \$50,000 for the possible closed captioning of City Council meetings;
- \$33,125 for the possible expansion of the Senior Taxi Program; and
- \$50,000 for possible expenses related to the new City development review process.

Consistent with City policy, monies budgeted in the Contingent Reserves account can only be expended after specific action by City Council.

Final FY 2003 Add/Delete List

B. General Fund revenues and other sources as proposed by the City Manager

FY 2003 Proposed General Fund revenues	\$363,537,600	
Proposed appropriation from General Fund undesignated fund balance	<u>\$9,773,644</u>	
Total General Fund revenues and other sources as proposed by the City Manager		\$373,311,244
Net additions (reductions) in revenues and other sources		
Revenue adjustments:		
1. Increased the FY 2003 revenue estimate for General Fund Business License Tax Revenue to reflect revised projections based on receipts through March 31, 2002.	\$500,000	
2. Increased the FY 2003 revenue estimate for General Fund Other Miscellaneous Local Tax Revenue to reflect revised projections based on receipts through March 31, 2002.	\$450,000	
3. Increased the FY 2003 revenue estimate for General Fund Personal Property Tax Revenue to reflect revised projections based on receipts through March 31, 2002.	\$400,000	
4. Increased the FY 2003 revenue estimate for General Fund Real Property Tax Revenue to reflect revised projections based on receipts through March 31, 2002.	\$250,000	
5. Increased the FY 2003 revenue estimate in Intergovernmental Revenues.	\$200,000	
6. Increased the FY 2003 revenue estimate for General Fund Miscellaneous Non-tax Revenues to reflect revised projections based on actual revenues received through March 31, 2002.	\$100,000	
7. Increased City parking lot and garage fee revenues.	\$17,000	
8. Reduced the FY 2003 revenue estimate of General Fund Real Property Tax Revenue by lowering the real estate tax rate from the proposed \$1.09 to \$1.08.	(\$1,600,000)	
9. Reduced the FY 2003 revenue estimate of General Fund Penalties and Interest, to reflect revised projections based on actual revenues received through March 31, 2002.	(\$500,000)	
Total revenue adjustments:		(\$183,000)
Additions (reductions) to appropriation from fund balance		
1. Net increase in the appropriation from fund balance	<u>\$42,980</u>	
Total additions (reductions) to appropriation from fund balance		\$42,980
Net additions (reductions) in revenues and other sources		<u>(\$140,020)</u>
Total General Fund revenues and other sources as approved by City Council		<u>\$373,171,224</u>

Final FY 2003 Add/Delete List

C. FY 2003- FY 2008 Capital Improvement Program Expenditures, as proposed by the City Manager	\$183,577,058
1. Increase of \$200,000 in the designation for capital funding from General Fund fund balance for the design and construction of a skate park within the City.	\$200,000
Total additions (reductions) to the Proposed Capital Improvement Plan	<u>\$200,000</u>
Capital Improvement Program FY 2003 to FY 2008 Expenditures, as approved by City Council	<u>\$183,777,058</u>

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